

WATER/DON:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Branch**

**RESOLUTION NO. W-4360
October 24, 2002**

R E S O L U T I O N

**(RES. W-4360), DEL ORO WATER COMPANY (DOWC), FERNDALE
DISTRICT (FD). ORDER AUTHORIZING A DECREASE IN RATES
PRODUCING A REDUCTION IN ANNUAL REVENUES OF \$837 OR
0.21% FOR TEST YEAR 2002.**

SUMMARY

By Draft Advice Letter, accepted on February 19, 2002, FD seeks an increase in rates for water service to recover increased operating expenses and to provide an adequate rate of return on its capital investment. This resolution grants a general rate decrease in gross annual revenues of \$837 or 0.21% for Test Year 2002. This decrease will provide a 9.84% rate of return on rate base in the test year.

BACKGROUND

FD requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$47,360 or 12.12% in 2002. FD's request shows 2002 gross revenue of \$390,900 at present rates increasing to \$438,260 at proposed rates to produce a rate of return on rate base of 9.971%. FD serves approximately 720 metered rate customers in and around the City of Ferndale, Humboldt County.

The last general rate increase became effective on July 1, 1998, pursuant to Res. W-4104, which authorized a rate increase of \$25,305 or 7.0% for test year 1997 and a rate of return of 10.05%. There have been no additional rate increases for FD since the last GRC.

DISCUSSION

The Water Division (Division) made an independent analysis of FD's summary of earnings and issued its report in July 2002. Appendix A shows FD's and the Division's estimates of the summary of earnings at present, requested, and recommended rates.

Appendix A also shows differences between FD's and the Division's estimates in operating revenues, and expenses.

FD was informed of the Division's differing views of operating revenues and expenses and disagreed with the Division's estimates of non-labor inflation factors applied to many expense items, employee labor expense, office salaries, office expenses, regulatory commission expense and rate of return. In an August 26, 2002 meeting, representatives of the Division and utility met to discuss each of the estimates in dispute with the following results:

Non-Labor Inflation Factor as applied to many expense items.

FD provided recent up-dated information that demonstrated that Division's estimate of the current composite non-labor inflation was understated. Division agreed and changed its estimate accordingly. The revised estimate, to which both parties agree, is reflected in the adopted rates column of Appendix A.

Employee Labor

FD presented its reasons justifying its higher estimate of employee labor. Division was not persuaded to change its estimate, indicating that its estimate did not include an alleged bonus. FD eventually accepted Division's estimate, which is reflected in the adopted rates column of Appendix A.

Office Salaries and Office Expense

FD presented its reasons justifying its higher estimate of office salaries and office expense. Division was not persuaded to change its estimate, indicating that its estimates were based on similar disallowances found reasonable by the Commission in DOWC's Paradise Pines District General Rate Increase (Res. W-4333, dated June 6, 2002). FD eventually accepted Division's estimate, which is reflected in the adopted rates column of Appendix A.

Regulatory Commission Expense

FD provided recent up-dated information that demonstrated that Division's estimate of the current regulatory commission expense was understated. Division agreed and changed its estimate accordingly. The revised estimate, to which both parties agree, is reflected in the adopted rates column of Appendix A.

Rate-of-Return

FD requested a rate of return of 9.971% for test year 2002 based on the factors used by Division in 2001. Based on newly updated 2002 factors, the Commission's Audit & Compliance (A&C) Branch recommends a rate of return of 9.84% for FD. After explaining how Division estimated its recommended rate of return, FD was satisfied. The Division's recommended rate of return, to which both parties agree, is reflected in the adopted rates column of Appendix A. Branch found that the return on investment calculation produced a revenue requirement of \$396,496 at the rate of return of 9.84%.

FD's current rate structure consists of one schedule: Schedule No. FD-1A, Annual General Metered Service. The Branch recommends that the Service Charge for the 5/8 X 3/4-inch meter be decreased by \$0.10 to produce the revenue decrease required.

At the Branch's recommended rates shown in Appendix B, the bill for a typical monthly metered customer, using 8,500 cubic feet per month, would decrease from \$45.15 to \$45.05, or 0.22%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

As stated earlier, it has been five years since FD's last general rate increase. Since that time the utility's rate of return has decreased by 21 basis points due to changes in: 1) its capital structure, 2) its cost of debt, and 3) various economic factors in the water industry that affect return on equity. In addition, FD's rate base has decreased by approximately \$133,000. The above-referenced factors are the primary reasons why FD is experiencing a rate decrease in this resolution.

NOTICE AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to each customer on March 26, 2002. The Branch received one letter protesting the rate increase. The Consumer Affairs Branch received 22 complaints in 2000 and 24 complaints in 2001 but they were about DOWC, as a whole, and are not district specific.

A public meeting was held on Thursday, April 18, 2002, at 7 p. m. in Ferndale. The Commission representative explained the different types of increases a utility can receive, and also the general method the Division uses to examine the utility's request. The Utility's representative explained why the utility needed the increase. Approximately nine customers attended the meeting and they asked questions about high energy costs and additional spring sources.

Compliance

There are no outstanding Commission orders requiring system improvements.

The utility has been filing annual reports as required. FD needs to update Rules 9, Rendering and Payment of Bills, and 10, Disputed Bills. The Preliminary Statement should be revised to include a recent service area extension.

The Branch recommends that the Commission authorize a rate decrease of \$837 or 0.21%. This will decrease estimated annual revenues from \$398,169 to \$397,332 at recommended rates as shown in Appendix A. This decrease will produce a rate of return of 9.84%.

FINDINGS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. FD should be ordered to update Rules 9, Rendering and Payment of Bills, and 10, Disputed Bills. The Preliminary Statement should be revised to include a recent service area extension.
5. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public utilities Code Section 454 for Del Oro Water Company, Ferndale District, to file an advice letter incorporating the summary of earnings and the revised schedule attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate schedules: Schedule No. FD-1A, Annual General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of its filing.

2. Del Oro Water Company, Ferndale District, is ordered to update Rules 9, Rendering and Payment of Bills, and 10, Disputed Bills, and to revise the Preliminary Statement to include a recent service area extension.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on October 24, 2002; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

APPENDIX B
DEL ORO WATER COMPANY
FERNDAL DISTRICT
Schedule No. FD-1A
ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Ferndale and adjacent unincorporated territory, Humboldt County.

RATES

Per Meter
Per Month

Quantity Rate:

For all water delivered per 100 cu.ft. \$ 3.682

Service Charge:

For 5/8 x 3/4 inch meter	13.75 (R)
For 3/4 inch meter	18.25
For 1 inch meter.	26.75
For 1-1/2 inch meter.	33.75
For 2 inch meter.	46.75
For 3 inch meter.	83.75
For 4 inch meter.	113.75
For 6 inch meter.	199.75
For 8 inch meter.	305.75

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service, and to which is added the charge for water used computed at the quantity rates.

APPENDIX C
DEL ORO WATER COMPANY
FERNDAL DISTRICT

COMPARISON OF RATES

<u>METERED SERVICE</u>	<u>Per Meter Per Year</u>		Percent Increase (Decrease)
	Present	Proposed	
	<u>Rates</u>	<u>TY 02</u>	
For 5/8X3/4 inch meter	\$ 13.85	\$ 13.75	(0.72%)
For 3/4 inch meter	18.25	18.25	N/A
For 1 inch meter	26.75	26.75	N/A
For 1 1/2 inch meter	33.75	33.75	N/A
For 2-inch meter	46.75	46.75	N/A
For 3-inch meter	83.75	83.75	N/A
For 4-inch meter	113.75	113.75	N/A
For 6-inch meter	199.75	199.75	N/A
For 8-inch meter	305.75	305.75	N/A

Quantity Rates:

All water, per 100 cu.ft.	\$ 3.682	\$ 3.682	N/A
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Comparison of a monthly typical bill for residential metered customers with a 5/8 x 3/4-inch is shown below at current rates and recommended rates for test year 2002.

Usage	Present	Recommended	Amount	Percent
<u>100 cu.ft.</u>	<u>Bills</u>	<u>Bills</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Increase</u> <u>(Decrease)</u>
0	\$13.85	\$13.75	(\$0.10)	(0.72%)
5	32.26	\$32.16	(\$0.10)	(0.31%)
8.5 avg	45.15	\$45.05	(\$0.10)	(0.22%)
10	50.67	\$50.57	(\$0.10)	(0.20%)

APPENDIX D
Sheet 1
DEL ORO WATER COMPANY
FERNDAL DISTRICT
ADOPTED QUANTITIES
Test Year 2002

Offset Items1. Purchased Power

Pacific Gas & Electric Company

Effective Date: March 4, 2002

Schedule: A-1 Small General Service

Energy Charge

Summer, per kWh per month \$0.14870

Winter, per kWh per month \$0.10193

CUSTOMER CHARGE, per month

Single Phase Service, per meter \$8.10

Polyphase Service, per meter \$12.00

Total Cost \$11,788

Total kWh 58,280

Average Unit Cost \$/kWh \$.2023

2. Payroll

Employee Labor \$80,599

Office Salaries 19,914

Management Salaries 11,944

3. Payroll Taxes 9,380

4. Property Taxes 14,162

Service Connections5. Meter Size

5/8 x 3/4-inch687

3/4-inch..... 5

1-inch..... 11

1-1/2-inch....., 1

2-inch..... 4

6-inch..... 1

8-inch..... 1

Total Metered 720

APPENDIX D

Sheet 2

DEL ORO WATER COMPANY
FERNDAL DISTRICT**ADOPTED TAX CALCULATIONS**

Test Year 2002

1.	Operating Revenues	\$ 397,332
2.	Expenses	217,480
3.	Depreciation	58,564
4.	Payroll Taxes	9,380
5.	Property Taxes	14,162
6.	Interest Expense	87,254
7.	Taxable Income for State Tax	10,492
8.	State Tax (8.84%)	927
9.	Taxable Income for FIT	9,565
10.	Federal Tax (15%)	1,435
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